

# CPP ANNUAL USE OF CAPITAL SURVEY - 2010



NAME OF INSTITUTION

(Include Holding Company Where Applicable)

Sword Financial Corporation and Horicon Bank

Point of Contact:	Frederick F. Schwertfeger	RSSD: (For Bank Holding Companies)	1202883
UST Sequence Number:	1145	Docket Number: (For Thrift Holding Companies)	
CPP/CDCI Funds Received:	13,644,000	FDIC Certificate Number: (For Depository Institutions)	11236
CPP/CDCI Funds Repaid to Date:		Credit Union Charter Number: (For Credit Unions)	
Date Funded (first funding):	May 08, 2009	City:	Horicon
Date Repaid <sup>1</sup> :	N/A	State:	Wisconsin

<sup>1</sup>If repayment was incremental, please enter the most recent repayment date.

American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP) and Community Development Capital Initiative (CDCI). To answer that question, Treasury is seeking responses that describe generally how the CPP/CDCI investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP/CDCI investment was deployed or how many CPP/CDCI dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.

**What specific ways did your institution utilize CPP/CDCI capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP/CDCI funds were outstanding).**

☒ **Increase lending or reduce lending less than otherwise would have occurred.**

Total loan balances were down in 2010 as many businesses continued to scale back or delay expansion. CPP provided additional capital needed for our bank to continue to support lending to local businesses who have credit needs.

☐ **To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).**

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☐ Increase securities purchased (ABS, MBS, etc.).

☐ Make other investments.

☒ Increase reserves for non-performing assets.

The additional capital provided us with the means to absorb the cost of higher reserves needed during the continued economic business recession and to strengthen our capital ratios that already exceed the regulatory definition of well capitalized.

☐ Reduce borrowings.

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**X Increase charge-offs.**

During 2010, Horicon Bank charged off approximately \$3.4 million of balances concentrated primarily in loans to businesses adversely affected by a prolonged contraction in economic activity.

**X Purchase another financial institution or purchase assets from another financial institution.**

Our stable financial condition allowed us to purchase a small branch in our market which was being sold by a bank exiting this area.

**X Held as non-leveraged increase to total capital.**

During 2010, approximately \$3.3 million of CPP funds were down streamed to Horicon Bank. Approximately \$3.7 million remains available for future contributions and which may be considered as a non-leveraged amount available if needed.

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### What actions were you able to avoid because of the capital infusion of CPP/CDCI funds?

The capital infusion of CPP funds enabled us to avoid significant contraction in our business lending activity. The added capital provided us with an opportunity to continue serving our local communities with loans to businesses.

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### What actions were you able to take that you may not have taken without the capital infusion of CPP/CDCI funds?

Because we have a strong capital position due to the CPP, we were able to keep our business model in place. This model emphasizes sound business lending in our local markets. The CPP enable us to cope with higher than normal charge-offs due to the economic slowdown, and it enabled us to build our reserves appropriately without cutbacks in banking services.

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Please describe any other actions that you were able to undertake with the capital infusion of CPP/CDCI funds.

Our stable financial condition allowed us to purchase a small branch in our market which was being sold by a bank exiting this area.